

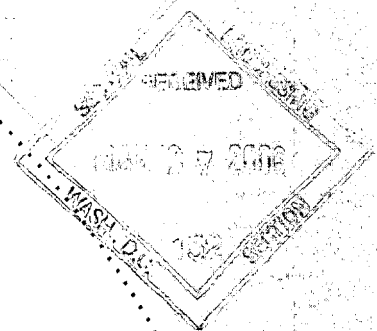
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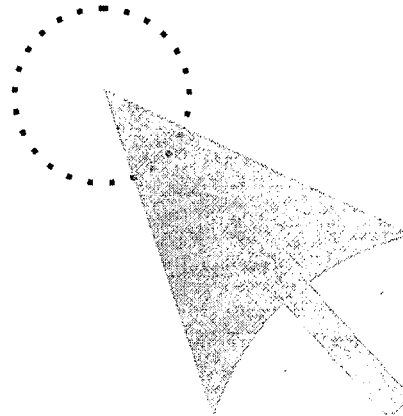
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STRATEGIC
Technologies Inc.

FIRST QUARTER
December 31, 2005



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STRATEGIC Technologies Inc.
Consolidated Balance Sheets (Unaudited)
Expressed in Canadian Dollars

	December 31 2005 \$	September 30 2005 \$
ASSETS		
Current		
Cash	1,170,990	1,338,582
Accounts receivable	640,398	1,035,686
Income taxes recoverable	96,307	96,307
Inventory	777,220	695,656
Prepays	57,463	88,231
	<u>2,742,378</u>	<u>3,254,462</u>
Property and equipment	602,045	667,929
Intangible assets	305,922	352,950
	<u>3,650,344</u>	<u>4,275,341</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	508,754	866,238
Customer deposits	5,156	5,162
Loans and notes payable (Note 5)	392,896	413,896
Debentures payable	1,582,000	1,582,000
	<u>2,488,806</u>	<u>2,867,296</u>
SHAREHOLDERS' EQUITY		
Share capital	14,500,112	14,500,112
Contributed surplus	401,309	401,309
Cumulative translation adjustment	(222,058)	(218,005)
Deficit	(13,517,825)	(13,275,371)
	<u>1,161,538</u>	<u>1,408,045</u>
	<u>3,650,344</u>	<u>4,275,341</u>

See accompanying notes to consolidated financial statements

Continuing Operations (Note 1)

On behalf of the Board



Director



Director

STRATEGIC Technologies Inc.
Consolidated Statements of Operations (Unaudited)
Periods Ended December 31
Expressed in Canadian Dollars

	FIRST QUARTER	
	2005	2004
	\$	\$
Revenues	1,011,377	1,202,994
Cost of sales	574,299	739,640
Gross Profit	437,078	463,353
Sales and marketing	250,347	266,621
General and administration	129,392	701,573
Research and development	85,087	115,216
Financing charges	116,310	126,382
Depreciation and amortization	82,556	114,871
Foreign exchange loss	15,840	25,511
Write off of advance to subsidiary sold	-	64,424
	679,532	1,414,598
Loss before income taxes	(242,454)	(951,245)
Income taxes	-	(7,434)
Net loss	(242,454)	(943,811)
Loss per share		
Basic	(\$0.01)	(\$0.05)
Weighted average number of shares		
Basic	18,812,213	17,586,982

See accompanying notes to consolidated financial statements

Consolidated Statements of Deficit (Unaudited)
Periods Ended December 31
Expressed in Canadian Dollars

	2005	2004
	\$	\$
Deficit, Beginning of period	(13,275,371)	(11,361,235)
Net loss	(242,454)	(943,811)
Deficit, End of period	(13,517,825)	(12,305,046)

See accompanying notes to consolidated financial statements

STRATEGIC Technologies Inc.
Consolidated Statements of Cash Flows (Unaudited)
Periods Ended December 31
Expressed in Canadian Dollars

	FIRST QUARTER	
	2005	2004
	\$	\$
OPERATING ACTIVITIES		
Net loss	(242,454)	(943,811)
Items not involving cash:		
Depreciation and amortization	32,556	114,872
Future income taxes	-	(7,434)
Amortization of deferred financing costs	48,579	48,579
Stock-based compensation	-	20,064
Exchange adjustment	6,330	(13,503)
Other	(1,400)	(3,759)
Non-cash working capital changes	12,998	194,913
	<u>(120,386)</u>	<u>(590,080)</u>
INVESTING ACTIVITIES		
Proceeds from disposal of subsidiary	-	1,121,634
Property and equipment acquisitions	(24,295)	(131,301)
Other assets additions	(1,910)	(2,894)
	<u>26,205</u>	<u>987,439</u>
FINANCING ACTIVITIES		
Repayment of loans payable	(21,000)	(560,332)
Net decrease in cash	(167,592)	(162,973)
Cash, beginning of period	1,338,582	938,334
Cash, end of period	<u>1,170,990</u>	<u>775,361</u>
Cash and cash equivalents are comprised of:		
Cash in banks	1,170,990	955,241
Bank indebtedness	-	(179,880)
	<u>1,170,990</u>	<u>775,361</u>
Supplementary Cash Flow Disclosure		
Interest Paid	67,731	72,728
Income taxes paid	-	113,320

See accompanying notes to consolidated financial statements.

STRATEGIC Technologies Inc.

Notes to Consolidated Financial Statements (Unaudited)

December 31, 2005 and 2004

Expressed in Canadian Dollars

1. CONTINUING OPERATIONS

Strategic Technologies Inc. (the "Company") manufactures and distributes electronic curfew monitoring systems which monitors the curfew compliance of offenders who are in correctional systems in the United States, Australia and France. The Company also designs and sells sophisticated communication surveillance and intelligence gathering equipment for the law enforcement and defense industries in the United States and Canada.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company has incurred losses in 2005 and 2004.

Continuation of operations is dependant upon the continued support of its creditors, the ability of the Company to secure adequate additional financing, and ultimately upon achieving future profitable operations.

If the Company is unable to continue as a going concern, it is likely that the assets will be realized at amounts significantly lower than the carrying value and the Company may not be able to fully satisfy all its obligations to secured and unsecured creditors.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements have been prepared following Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is dependent upon future events whose outcome will not be fully known until future periods. Therefore the preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may vary from those estimated.

These unaudited interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended September 30, 2005 as set out in the Company's Annual Report.

3. STOCK BASED COMPENSATION

The Company accounts for all stock-based payments granted on or after October 1, 2002, using the fair value based method. Under the fair value based method, stock-based payments are measured at the fair value of the equity instruments issued at the date of grant using the Black-Scholes option pricing model. The estimated weighted-average fair value of the options was determined using the following weighted-average assumptions:

Fair value of options	\$0.40
Risk-free interest rate	3.50%
Expected hold period to exercise	4 years
Volatility in stock price	86.25%
Dividend yield	0.00%

4. SEGMENT INFORMATION

	FIRST QUARTER	
	2005	2004
	\$	\$
Revenues – Corrections	502,320	765,439
Revenues – Law Enforcement	509,057	437,555
Net Income (Loss) – Corrections	(193,618)	(812,138)
Net Income (Loss) – Law Enforcement	(48,836)	(131,673)
Capital Expenditures – Corrections	24,295	123,709
Capital Expenditures – Law Enforcement	-	10,486

5. LOANS AND NOTES PAYABLE

	2005	2004
	\$	\$
Western Economic Diversification Fund Loan, bearing interest at Bank of Canada prime lending rate plus 3%, due May, 2006	33,506	95,506
Loan Payable, non interest bearing, due March 3, 2005	179,695	290,624
4% Notes Payable, due March 3, 2005	179,695	290,623
	392,896	676,753
Less long term portion	-	35,000
	392,896	641,753

6. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

7. DEBENTURES PAYABLE

	2005	2004
	\$	\$
Debentures payable, bearing interest at 12% per annum, payable monthly, due September 3, 2006	1,582,000	1,582,000

The debentures are secured by a General Security Agreement over all the assets of the company. In addition the Company provided a pledge of the shares of its subsidiaries, Tactical Technologies Inc. and On Guard Plus Limited. The Company may redeem the debentures at any time, without penalty. As part of the financing, the Company issued 1,740,200 warrants exercisable into common shares at \$0.60 each. The warrants have a two year term from date of issue and expire on September 3, 2006. The fair value of the warrants measured at \$199,183 has been treated as deferred financing fees and are being amortized over the life of the debt.

Directors and Officers

Doug H. Blakeway*

Director, President & Chief Executive Officer
STRATEGIC Technologies Inc.
Director, Chairman & Chief Executive Officer
TACTICAL Technologies Inc.
ON GUARD Plus Limited

Ian M. Brown

Director, Vice President, Secretary & Chief
Financial Officer
STRATEGIC Technologies Inc.

Kenneth R. Tolmie*

Director, Chairman, Audit Committee
STRATEGIC Technologies Inc.

Hugh Maxwell, CA

Non-executive Director
ON GUARD Plus Limited

Robert J. Thomas, Jr.*

Director
STRATEGIC Technologies Inc.

President

ON GUARD Plus Limited

Richard B. Snyder

President

TACTICAL Technologies Inc.

Steve L. Rosset

Vice President, Technical
STRATEGIC Technologies Inc.

Lynn J. Blakeway

Vice President
STRATEGIC Technologies Inc.

*Denotes member of Audit Committee

Corporate Information

STRATEGIC Technologies Inc. (Canada)

103 – 6592 – 176 Street
Surrey, British Columbia V3S 4G5

Telephone: (604) 576-8658

Facsimile: (604) 576-0436

Website: www.strategic-tech.com

eMail: exec@strategic-tech.com

Wholly-owned subsidiaries

TACTICAL Technologies Inc. (United States)

ON GUARD Plus Limited (United Kingdom)

Stock Exchange Listing

TSX Venture Exchange Symbol – **STI**

In the USA, Sec. 12g – exemption #82-1548

Trade USA Pink Pages Symbol – **SGTKF**

Common Shares Authorized: Unlimited

Common Shares Issued: 18,812,213
(at February 9, 2006)

Strategic Monitoring Services, Inc. (inactive)

Capstone Technologies Inc. (inactive)

C-TRACK (UK) Limited (inactive)

Legal Counsel and Records Office

Lang Michener

1500 – 1055 West Georgia Street

Vancouver, British Columbia V6E 4N7

Registrar and Transfer Agent

Computershare Investor Services Inc.

408 – 510 Burrard Street

Vancouver, British Columbia V6C 3B9

Auditors: **Deloitte & Touche LLP**

Bankers: **Toronto Dominion Bank**